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October 29, 2002

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW, Room TWB-204  
Washington, DC 20554

Re: Notice of Written Ex Parte Communication, In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, CC Docket Nos. 01-338, 96-98 and 98-147

Dear Ms. Dortch:

On October 25, 2002, Verizon released information on its 3<sup>rd</sup> quarter performance and the results are impressive, again showing the wide disconnect between its regulatory advocacy positions and real world economics. At the same time that Verizon was warning this Commission that access lines were declining, that it was experiencing substantial losses to competition and that UNE-P was undermining ILEC financial positions (Verizon "Switching and UNE-P" presentation dated October 8, 2002), Verizon was able to grow revenue, grow operating income, increase EBITDA margins and reduce its debt by close to \$7 Billion. See Verizon 3<sup>rd</sup> Quarter Earning Conference Call Presentation, dated October 25, 2002, attached. Verizon's 3<sup>rd</sup> quarter performance also produced free cash flow of \$2.4 Billion. These results do not reflect the performance of a company that is being "undermined" by regulatory policy, but rather one that is meeting competition head on, and succeeding.

Verizon's 3<sup>rd</sup> quarter results include the following highlights:

Significant Debt Reduction: Net debt was reduced in the 3<sup>rd</sup> quarter by \$6.8 Billion, or 11.6%, with year-to-date debt reduction of \$11.5 Billion.

Significant Positive Free Cash Flow: From 3Q01 to 3Q02, Verizon's free cash flow (cash from operating activities less capital expenditures and dividends) increased by \$7.3 Billion.

Increase in Consumer Telecom Revenues: Verizon's year-to-date consumer telecom revenues grew to \$12.5 Billion, which represents a 4.5% *increase* over revenues YTD 3Q01. This is not surprising, given that Verizon added another 800,000 long distance subscribers and 155,000 DSL subscribers. Verizon now has close to 10 Million long distance subscribers, describing long distance as a "Billion dollar + Business."

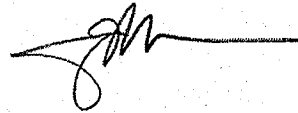
Increase in Wireless Revenue, Income and EBITDA Margins: While complaining to this Commission about "stiff competition" from wireless substitution (see October 8 Presentation at p. 8), Verizon is touting its "industry leading" wireless performance. Year over year, Verizon's wireless service revenues grew by 10.3%, its wireless operating income grew by 41%, and its wireless EBITDA margins grew by 10.2%. In the end, Verizon's complaint that RBOC access lines are being displaced by wireless phones means only that revenue is being shifted from Verizon's right pocket to its left.

Verizon also speaks of its emerging enterprise opportunities. Indeed, the President of Verizon's Enterprise Solutions Group, Eduardo Menasce, was recently interviewed in Network World Fusion on the evolution of Verizon's enterprise services. (See interview entitled "Verizon President Sets Sight on AT&T," dated October 28, 2002, attached). In that article, Mr. Menasce underscores the fact that Verizon has only a local facilities presence, but is pursuing enterprise opportunities nationwide. Mr. Menasce also acknowledges that it is easier for Verizon to go after the long-distance market than it is for AT&T to target the local market because "[i]t's less capital-intensive to move from local to long-distance than the other way around."

On the question of out-of-franchise markets such as Chicago, Mr. Menasce stated that, even though Verizon doesn't have any facilities in Chicago, Verizon will be a "player" through Verizon's network-integration business, which maintains and manages networks owned by others. This directly contradicts the quote that served as the very foundation of Verizon's October 8 Presentation to this Commission: "Only through facilities-based competition can an entity offer true products and pricing differentiation for consumers, . . ." In short, while the RBOCs demand that competitors build facilities to compete in the local market, they are competing in the long-distance market relying entirely on facilities owned and deployed by others. Verizon's public statements and market successes once again confirm that the real story about competition can be found in the RBOCs' statements to investors and the investment community, not in their self-serving arguments to regulators.

Consistent with Commission rules, I am filing one electronic copy of this notice and request that you place it in the record of the above-referenced proceedings.

Sincerely,

A handwritten signature in black ink, appearing to be 'JM' or 'Joan Marsh', with a horizontal line extending to the right.

Joan Marsh

cc: Christopher Libertelli  
Matthew Brill  
Daniel Gonzalez  
Jordan Goldstein  
William Maher  
Jeff Carlisle  
Michelle Carey  
Scott Bergmann  
Rich Lerner  
Thomas Navin  
Robert Tanner  
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## NetworkWorldFusion

This story appeared on Network World Fusion at  
<http://www.nwfusion.com/news/2002/1028verizonqna.html>

# Verizon president sets sights on AT&T

Network World, 10/28/02

*Verizon is on the verge of winning long-distance approval in all 15 of its local states, giving the carrier another arrow in its quiver of enterprise services, which already include local voice, many flavors of data transport and network management, design and integration services. Network World Senior Writer Michael Martin recently sat down with Eduardo Menasce, president of Verizon Enterprise Solutions Group, to discuss the evolution of the telecom market.*

**You're nearing 271-approval in all your local states. Initially this seems to be more of a consumer play, but what does it mean long term for the enterprise?**

It means we can become not an [interexchange carrier], but a totally different entity: One that can leverage extraordinary local capabilities and go after [long-distance] revenue that we couldn't pursue in the past. We're nationwide, but we only have a local presence. We're outstanding in New Jersey, outstanding in New York. However, we can't serve a customer from here to there. 271-relief lets us cross that river. I'd like to share some news with you, but I can't because it's something we're doing in a couple of weeks. I can say customers are asking us to give them long-distance - voice and data. They're asking us to make the transition from a [regional Bell operating company] - not to an IXC - but to something different.

And Verizon is very well positioned to do that. Looking at what is happening in the marketplace, there a window of opportunity. When we formed our objectives two years ago, I didn't think the market would go in the direction it has. I didn't expect the economic downturn, everyone cutting spending, and we didn't forecast we would have fewer competitors. We couldn't foresee the demise of WorldCom. So we will become a real solutions provider, A-to-Z.

**AT&T and WorldCom are some of the largest competitive local exchange carriers today. How do you see them as competitors?**

AT&T is clearly No. 1 in the large-business customer segment. They have a good reputation and national presence. They are the strongest IXC. We're going after each other. But it's much easier [for us] to go after long-distance. It's less capital-intensive to move from local to long-distance than the other way around. WorldCom is a question mark. What will happen to them, I don't know. I would guess they will [emerge from bankruptcy] a completely different company - a smaller company and maybe not the competitor they were before. That would leave us two strong competitors: AT&T and Sprint.

**When you're going after the large-customer segment, how do you convince someone to shift from AT&T? Is it price?**

People are maybe more price-sensitive today because they have to do more with less. But they also realize that price is not the only game in town. A lot of people got hurt by going for price. People are looking for someone who can provide the entire value proposition - strong company, facilities-based, large portfolio of products and services.

And customers would like to have a choice. They'd like to have another provider that could be as strong or stronger than AT&T, so they aren't in the hands of one provider.

**The other RBOCs don't have the same reach as you do since your acquisition of GTE. How will they shape up as competitors?**

They will be competitors. It will depend on their geographical reach. We've already started to move outside of our franchise. We added to existing GTE networks in Dallas, Seattle and Los Angeles in a near out-of-franchise strategy. We deployed facilities there to compete with the local players. The expansions were close to existing distribution points. For example, in Dallas we were on the outside of Dallas, but not in the big business district. We added facilities in the business areas. Essentially we're trying to follow the customer. The same customer who has an office in New York might have one in Dallas, L.A. or Seattle. And eventually we can attract new customers there, too.

We also have a presence on the international side. We deployed a network that follows our customers outside of the U.S. We can do business between the U.S. and Europe, Canada, Latin America, Asia.

**How do you deal with out-of-franchise markets? Do you see yourselves moving into Chicago, for example?**

We are a player in Chicago already. We don't have facilities there. But [we have] our network-integration business, whether it's installing [customer premises equipment] or maintaining and managing networks. We manage networks for our customers on a nationwide basis. So in Chicago, we could design the network, provide the boxes, install and maintain the network.

**Would you manage the transport as well?**

Yes, we do that. We could manage the customer's frame relay network, even if it's not Verizon frame relay. We monitor that out of our network operations center.

**What types of new services are coming?**

You have frame relay, transparent LAN services that are important. Regional dedicated optical. The whole area of managed network services is taking off very fast. IP Centrex, IP VPN, dense wavelength division multiplexing. And voice over IP, which is slowly getting there.

Wireless LANs are coming along. It's still not ready for prime time in the enterprise because of security issues, but we're getting there and we're starting to resell some of the boxes. What we really want to do is provide a managed network service, where we manage the wireless LAN.

**Is frame relay still the data service of choice?**

It is still a very strong product. We thought at some point it was going to slow down, but it is still selling very well.

**Is it still smaller than private lines?**

Yes. There's a big legacy of private lines. But private lines are only growing at 1% to 2% annually. Frame relay is growing 18% to 20% a year.

**Do cable TV providers compete at all for enterprise customers?**

I don't want to minimize the possibilities here. But I don't see that the cable companies by themselves are going to become enterprise players. They don't have the networks. They don't have the reputation. They don't have the knowledge and they don't have the expertise. It's too much of a leap.

**Unbundled network element pricing - the requirement that RBOCs must resell network resources to competitive carriers - looks like it might be changing. What needs to change?**

I don't know exactly what the ideal situation would be. I do know what we have today is not ideal. The way things are designed today, it allows people to use our network at prices that are below our costs. I don't think that makes any sense.

**Related Links**

ILECs are crying wolf over regulation

You hear a lot these days about the impact of unbundled network element-platform (UNE-P) regulation on the telecom industry. Not only is UNE-P blamed for reducing the profits of the incumbent local exchange providers, it's now being blamed for contributing to the telecom slump by reducing the incumbent local exchange carriers' ability to purchase hardware and software.

Network World, 10/14/02

Verizon outsourcing unit looking to make a name

But Verizon IT faces several challenges. The first is getting its name out to prospective customers.

Network World, 10/14/02.

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